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TAGS: [ECON](#) [EINV](#) [ETRD](#) [PREL](#) [PGOV](#) [RS](#)
SUBJECT: KOZAK ON ECONOMIC DECENTRALIZATION, REGIONAL
DEVELOPMENT

Classified By: Ambassador William Burns for Reasons 1.5 (b) and (d).

Summary

¶1. (C) In a February 27 meeting, Minister of Regional Development Dmitry Kozak told the Ambassador that the GOR was committed to a policy of economic decentralization but that the pace would vary from region to region depending on local factors, above all local leadership. Kozak said different regions faced different obstacles to development and that the GOR would tailor its plans accordingly. In that regard, he explained that his concept of "macro-regions" was intended to promote economic efficiency in the regions. End Summary.

Decentralization -- Region Specific

¶2. (C) Kozak told the Ambassador that the central government recognized the importance of transferring authority to the regions to spur their economic development. After the chaos of the 1990s, Russia had recentralized to restore order. However, this recentralization had led to red tape and bureaucracy which in turn was causing economic stagnation in many parts of the country and the central government now needed to begin devolving power not just to the regions but to municipalities as well.

¶3. (C) Kozak stressed, however, that some regions were already developing more rapidly than others because of better leadership. In transferring authority to the regions, the center would need to hold individual regional leaders accountable and be prepared to step back in as needed. In that regard, the center's role in the regions would be directly correlated to the extent of assistance it needed to provide. Those regions that needed little help would be allowed more freedom to run their own affairs.

Obstacles to Regional Development

¶4. (C) Kozak told the Ambassador that the GOR would tailor regional development plans to the specific obstacles in a given region. In the Far East, for instance there was a lack of labor and of infrastructure. The central government might need to offer incentives to attract labor, such as housing allowances and income supplements. The center would also likely have to invest public funds in developing the region's infrastructure. For instance, the Far East had 22 airports

that needed to be refurbished and thousands of kilometers of roads that needed to be built if it was to develop faster.

15. (C) In the North Caucasus, on the other hand, Kozak said stability had been the main problem following the Chechen conflict. Central subsidies had helped restore stability and the main obstacle now was unemployment. It was up to regional leaders to reduce their reliance on subsidies, which could not be maintained indefinitely, and to create employment opportunities by, among other things, attracting private investment. Some leadership, such as in Kabardino-Balkaria had made progress; others such as in Ingushetia, were stuck or sliding backwards economically. In broad terms, Kozak said the 2014 Sochi Olympics should have a major economic impact on the region.

Regional Development Plans

16. (C) Kozak said he was developing the concept of "macro-regions" to speed regional development. These macro-regions would be encouraged to develop into self-sustaining economic entities with specific specializations. For instance, if a region had a particular natural resource, then factories utilizing that resource would be built in the region. This would reduce transportation costs and improve economic efficiency. Kozak stressed that this was an economic rather than a political plan. While administrative changes might be made to borders and the like, it would only be done so in the interest of economic goals.

17. (C) Kozak said the GOR would also continue to use Special Economic Zones (SEZs) to promote regional development, but

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only in places where development was lagging, such as the Far East. SEZs and their tax and other special preferences were unnecessary in regions that were already developing.

U.S. Experience

18. (C) The Ambassador noted our own experience with federalism questions and offered to share it as Russia's decentralization went forward. Kozak responded positively, welcoming any information the U.S. could provide. He also responded positively to the Ambassador's suggestion that he meet soon with the American Chamber of Commerce, many of whose members are increasingly looking to Russia's regions for investment opportunities, to discuss his plans for regional economic development.

Comment

19. (C) Kozak is one of the more business-like and direct members of the senior Russian political leadership. He was only recently brought back to Moscow from the North Caucasus where he was President Putin's personal representative. Newly empowered and with a healthy budget, he has quickly taken charge in a ministry that had previously been a backwater. While Kozak is often rumored as a candidate for other high-level GOR portfolios, he left the impression of someone who assumed he would remain in his current post for some time to come.

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